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Italy Wheat Update

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Approved by:
Geoffrey Wiggin
U.S. Embassy

Prepared by:
Sandro Perini

Report Highlights: Italy continues to be among the world's most important wheat importing countries, reaching the top position in 2001/02. This report looks at wheat trade, production and wheat milling with discussion of differences among Italy's north, central and southern regions.

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During the most recent years Italy has consistently been one of the world's most important wheat importing countries (reaching the leading position in 2001/02), if we include intra-EU trade. The dramatic drop reported in domestic bread wheat production during the last decades represents the major reason for this situation: Italian soft wheat output averages now only 3 million tons (MMT), while imports (including again shipments from other EU counties) constantly exceed 5 MMT per year, as shown in the table below. However, another important factor keeps Italian wheat (both soft and durum) imports on the high side: the quality requirements from the Italian milling and pasta manufacturing industries.
In the case of soft wheat, local millers buy important volumes of high quality wheat from North America, including Dark Northern Spring wheat from North Dakota, used to improve the flour blends needed to produce certain Italian bakery products (for example the traditional Christmas cakes, like Panettoni and Pandori). The same basic reason (quality improvement, generally connected to some specifics that can hardly be found in the domestic crop, such as protein content, yellow color, cooking properties of pasta obtained from that durum, etc.) explains the high volumes of durum imports.

Italy's imports vary annually despite the relatively large domestic crop, between 3.5 and 4.5 MMT, on average, with a record high peak of 5.7 MMT in 2004 the quantities are remarkable, all things considered.
As a matter of fact, the Italian pasta industry, by far the leader in the world, traditionally buys the best durum available in the world, paying in most cases even premium prices, in order to obtain a final product, recognized worldwide to be of superior quality. Most of the so called "desert durum", produced under contract in Arizona and southern California, is purchased by leading Italian pasta makers (Barilla, De Cecco, and a few others), in order to feed certain production lines of particular, highly priced kinds of pasta. Growers of those states, therefore, adjust their plantings mainly to the import requirements of the contracting Italian pasta makers.

ITALIAN WHEAT IMPORTS
(1,000 METRIC TONS)

	2000/01	2001/02	2002/03	2003/04
BREAD WHEAT				
TOTAL	5,148	5,444	5,892	5,046
France	2,784	1,319	1,552	2,432
Germany	577	639	295	327
U.K.	532	32	161	219
Austria	347	422	326	215
TOTAL EU	4,267	2,461	2,461	3,590
U.S.	489	474	420	738
Canada	186	221	173	369
Russia	0	913	1.802	146
Ukraine	0	562	305	15
Bulgaria	0	113	259	0
DURUM	2000/01	2001/02	2002/03	2003/04
TOTAL	1,551	2,359	1,174	1,961
France	340	331	361	186
Spain	257	264	126	182
TOTAL EU	703	779	605	440
U.S.	370	654	272	317
Canada	117	337	150	827
Australia	240	392	105	229
GRAND TOTAL	***6,699***	***7,803***	***7,066***	***7,007***

Source: ISTAT

The geographical distribution of the wheat crops in Italy, however, is completely different between soft and durum wheat. Soft wheat output is almost exclusively concentrated in northern Italy (70 percent of the total) and central Italy (23 percent), with a minimal share in the south (about 7 percent). About two thirds in of Italian durum is produced in southern Italy, and the remaining in the central regions, while production in northern Italy is negligible. This situation explains the different traffic patterns of wheat imported into Italy. Soft wheat shipped from northern Europe to northern and central Italy usually comes by truck or rail, given the relative short distances, that keep the transportation costs relatively low. French wheat imported into the south, instead, is mainly shipped by sea, as the freight from a French port to Naples or Palermo remains lower than the transportation cost (by truck or train) from northern Italy. As a result of this situation, we may assume that bread and other bakery products produced in southern Italy are made 100 per cent with imported wheat.

In the most recent years the traditional non-EU suppliers of bread wheat to Italy (basically the U.S. and Canada) have been joined by the Black Sea countries (Russia, Ukraine and Bulgaria), that ship medium-low quality wheat (both for milling and feeding purposes), partially replacing, in different measure according to the years, French and British wheat into the Italian market. This wheat coming from eastern Europe arrive into Italy by small vessels, that, thanks to their reduced tonnage (sometimes no more than 2,000/3,000 tons) can reach even minor ports.

After deducting the volumes used for feed (generally about 1.5 to 2 MMT per year), soft wheat milled in Italy for food consumption totals about 6 MMT, and the flour obtained is mainly used for domestic consumption, as exports have become minimal in recent years. In the case of durum, on the contrary, imports are needed to supply the Italian pasta industry, that works for both the domestic and export markets. Italian pasta production exceeds 3 MMT, of which roughly a half is domestically consumed and the other half is exported, mainly to northern Europe, the U.S. and Japan.

In this context, the role of southern Italy is not marginal. The following table shows the geographical distribution of the Italian milling (both soft and durum wheat) and pasta manufacturing industry in terms of daily production capacity.

DAILY PRODUCTION CAPACITY OF THE ITALIAN WHEAT PROCESSING INDUSTRY
(Metric tons)

	Soft wheat mills	**Durum wheat mills**	**Pasta manufacturing industry**
Northern Italy	**22,309**	**4,470**	**7,097**
Central Italy	**7,301**	**2,890**	**1,509**
Southern Italy	**5,095**	**15,318**	**7,170**
TOTAL ITALY	**34,705**	**22,678**	**15,776**

Sources: ITALMOPA, UNIPI

As can be seen, the soft wheat milling industry is mainly concentrated in central-northern Italy, while the south accounts for about 15 percent of total milling capacity. The lack of any local bread wheat crop and the consequent need to import virtually the whole amount of wheat to be processed for food consumption of the southern population has induced the local milling industry to minimize their processing activity, in view also of the strong competition from the flour coming from northern Italy.

This situation, however, does not exclude a growing import traffic of high quality soft wheat from North America (including spring wheat from North Dakota), that the southern mills wish to use for certain typical bakery products. The situation, on the other hand, is reversed when we consider the durum wheat milling industry, for which about two thirds of the total processing capacity is located in the southern regions. The presence of high domestic crop volumes has of course represented the main factor of this development: even the pasta making industries located in northern Italy often own processing facilities in the south, in order to keep the milling costs as low as possible. As a matter of fact, the production capacity of the pasta making industry is equally distributed between the north and the south (45 percent each), with a minor share of central Italy (10 percent). Even in the case of durum wheat, the pasta industry of southern Italy buys a growing amount of high quality north American durum, considered necessary to improve the characteristics of the locally produced pasta, that cannot rely only on the domestic crop, at least in terms of quality.